Digicel

Unit 207
Graceway House
Leeward Highway
Providenciales
Turks & Caicos Islands
Ph: 649-331-3444
Fax: 649-941-7601

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John Williams
Director General
Turks & Caicos Telecommunications Commission
Business Solutions Building
Leeward Highway
Providenciales
Turks & Caicos Islands

Dear Mr. Williams,

Re: Digicel's Comments on Responses to the Commission's Mobile Termination Rate Consultation Document

LIME's Answer to Question 4

LIME makes the following statement in its paragraph 11:

> *"*
> *Reducing the MTR to a cost-based level will encourage a reduction in end user prices and thereby enhance the welfare of consumers of telecommunications services in TCI.*
> *"*

We have to question whether it is appropriate for LIME to be quoting consumer welfare given its own pricing behaviour with respect to retail prices for fixed to mobile calls. LIME continues to operate at an enormous profit on its fixed origination service for calls to mobile networks. The revenue from this service is at around 1,500% of the cost it takes to provide it ((45[1] cents per minute/3 cents fixed origination[2] cost) *100).

In spite of LIME's stated interest in consumer welfare, and despite the huge profit it makes on fixed origination, LIME has retail priced its fixed to mobile service at the maximum permissible under the fixed to mobile retail price cap (in fact the price may even be above what is permitted by the Commission it appears but we will put that to one side for now). It is therefore well within LIME's power to do far more for customers through slashing the size of its fixed origination retention but LIME chooses not to do so.

[1] The effective average fixed to mobile retail rate is estimated to be about 60 cents if it were billed per second. Thus the fixed origination retention is 60 – 15 = 45 cents per minute.
[2] The origination cost will be the same as the termination cost. We believe that the current fixed termination cost is not cost based and should be reduced.

LIME also makes the following statement in paragraph 11:

> ”
> *Reducing the MTR will decrease the non-cost-based difference between MTR and FTR, and thereby improve the competitive neutrality between fixed and mobile wireless technologies in TCI*
> “

LIME is claiming that the costs of providing and operating a fixed and mobile network are the same. In other words, despite the major differences in network configuration, time since build (and taking account of depreciation which is a major factor in the case of incumbent fixed networks), and mode of operation the suggestion is that the costs are exactly the same. Clearly, this is untrue. LIME signed interconnect agreements across the Caribbean in the light of its own assessments of fixed and mobile network costs which reflected the cost differences that do exist. Further, in every instance that a cost model has been implemented or is in the process of being implemented in the Caribbean and in which LIME has been involved, major cost differences remain. Mobile networks still cost at least several times the fixed network cost per minute in respect of termination.

LIME’s final statement in paragraph 11 is as follows:

> “
> *Reducing the MTR to a cost-based level will improve the efficiency of investment incentives in TCI.*
> “

In fact we believe that the opposite may be the case. This is because in the absence of accounting separation between LIME’s fixed and mobile networks, LIME is free to channel the huge profits it makes out of fixed origination back in to its mobile network to compete unfairly with Digicel and Islandcom in mobile service provision. Effectively, if this is happening, it would amount to a cross-leverage of LIME’s dominance in fixed origination. This would mean that Digicel and Islandcom may be forced to price at least some of their services below reasonably sustainable levels just to compete. Consequently, the investment incentives to build mobile networks may be less than should be the case.

LIME’s Answer to Question 5

In paragraph 13 of its response LIME states that there is no support in the legislation for using benchmarks to set interconnection rates. However LIME quotes no support for any methodology whatsoever within the legislation. Implicitly LIME seems to be stating that only a cost model can provide a cost orientated rated. But this is not true. Models can generate one of many answers depending on the assumptions made within them. Different kinds of models will generate different results. Different regulators would probably arrive at a wide range of answers even using the same basic model.

Further, cost models might require years of work and would require much consultation, all at great cost. The cost might amount to hundreds of thousands of dollars for the model alone, and maybe as much or more again in terms of all the resources devoted in the operators to generate the information needed to populate the model and to provide detailed commentary on how it should be developed.

LIME points in its paragraph 19 to the possibility of conducting a complex benchmarking exercise. However even the factors that LIME points to are only a sample that could be used to carry out adjustment to benchmarks. Others, and perhaps sometimes more significant ones, may for example be the commercial arrangements made between existing operators in anticipation of new market entry, and the ability of some operators to cross-subsidize networks and/or set the precedents of rates in the market that would not otherwise exist. However the advantage of using a number of benchmarks as the basis of a decision is that they are more likely to capture a range of circumstances and streams of regulatory thought and cancel out the extremes when combined. Benchmarks are, like cost models, imperfect but they seem to be the best approach for an island with a small population.

LIME's Answer to Question 6

Paragraph 23 of the LIME response talks in general about problems with excessive termination rates for fixed to mobile calls but the fact is that the vast majority of the cost of calling fixed to mobile calls in the Turks and Caicos, and in the benchmarks identified by the Commission, is as a result of the high fixed origination retention rate determined by the fixed operator. Therefore, if any fixed to mobile substitution is occurring this is as a result of the pricing by LIME of its fixed origination services. However, LIME seems uninterested in reducing the price for its fixed origination service. This must mean either that LIME is not worried about the possibility of fixed to mobile substitution, or that the profits it makes from fixed origination more than compensate for any such self-inflicted substitution.

Comments on Islandcom's Response

Islandcom's Response to Question 4

Islandcom's response to question 4 states that the Federal Communications Commission (FCC) found that US carriers did not pass on the benefits of lower accounting rates to their customers and that the carriers simply pocketed the savings they made. This contradicts what LIME says in its paragraph 12 where it says that the FCC concluded that reductions in access fees paid by long distance carriers would result in “reduced prices” and “significant consumer benefits”. LIME is quoting from an old document from 2000 which may account for any such earlier contradictory statement by the FCC.

Our experience, and indeed the evidence, shows that Islandcom must be correct about the FCC's current views. To illustrate this we have obtained the price for customers of AT&T who call the Turks and Caicos islands from Miami. This is about the shortest international call distance from the USA to the Turks and Caicos Islands.

The cost to AT&T (and not its customers) will, apart from the mobile termination rate, include the international transport rates from the USA to the Turks and Caicos which will be a few US cents per minute.

In spite of this, the per minute cost that AT&T charges its customers for calling from Miami to the Turks and Caicos Islands is, amazingly enough, US$1.85 per minute according to the AT&T website – see the Appendix. Even this rate is only obtainable by paying down an additional US$12 per year for an international calling plan. We note incidentally that AT&T calls this “great value”. As can be noted therefore the termination rates (fixed or mobile) in the Turks and Caicos represent a miniscule proportion of the amount that AT&T is charging its customers for these calls. This serves to illustrate that if international termination rates were reduced, the beneficiaries would be the international carriers.

IslandCom's Response to Questions 8 and 9

In response to questions 8 and 9 IslandCom has suggested that interconnect rates in Guyana might be a useful benchmark. In fact they are entirely unsuitable. The interconnect contract that mobile company Cel*Star (later purchased by Digicel) was forced to sign, and from where termination rates in that country derive, represents one of the most distorted and unfair contracts that Digicel has encountered in its operations across the Caribbean, the Pacific and the Americas. This has been reflected in a lower mobile population coverage than would otherwise have been possible than has proved possible elsewhere. Moreover Guyana is a country with over 30 times the population of the Turks and Caicos Islands so based on scale economies alone we question whether it can be considered to be a reasonable comparator. The mobile termination rates in the neighboring country of Suriname are several times the rate in Guyana. Unlike in Guyana the rates in Suriname were determined by the regulator. If Guyana were to be included as a benchmark there would be no obvious case for excluding Suriname. In fact there is a much stronger case for including Suriname: its population is closer to that of the Turks and Caicos (twenty times greater compared to thirty times for Guyana) and, as indicated, the rates in Suriname were determined by the regulator unlike in Guyana. However, neither Suriname nor Guyana is a small island.

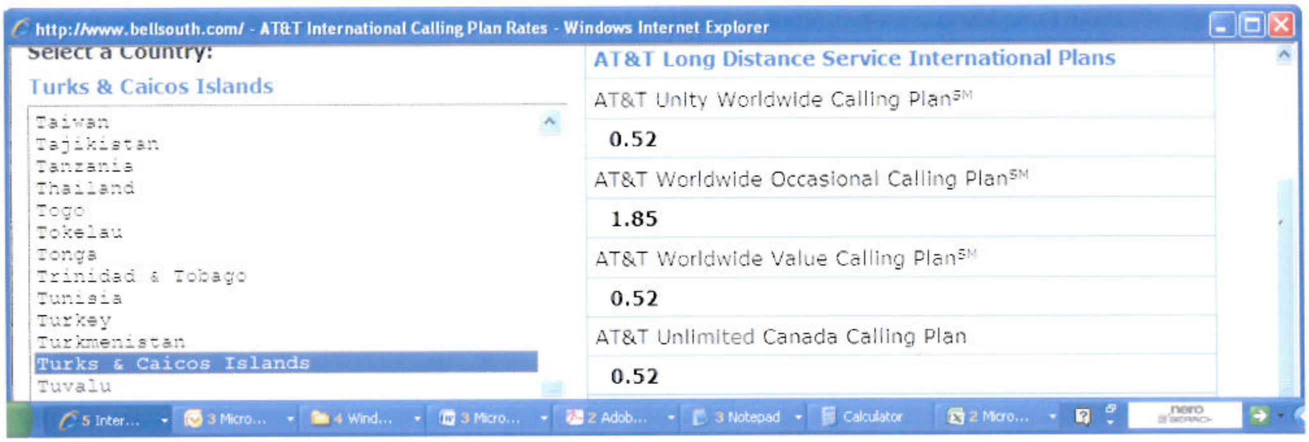
The original rates for interconnection in Guyana were imposed by the incumbent on Cel*Star. Cel*Star was forced to agree the rates put to it by the incumbent, or face long months or years of struggle which it was not financially equipped to undertake. It was simply a case of "take it or leave it" with respect to those rates. Not accepting them may have condemned Cel*Star's business. The mobile termination rates that were imposed on it were hugely below cost (whether measured against benchmarks or cost models of any description) at the time the interconnection contract was signed in 2003. They were not determined by the regulator we underline. Even now the mobile termination rate in Guyana is still significantly below cost by any reasonable measure. For reasons explained in our previous submission the incumbent's tactics when dealing with Cel*Star represented the best financial strategy for a dual fixed/mobile network operator (the incumbent continues to be dominant in fixed provision) to follow with respect to a new entrant. The distorted interconnect agreement enabled the incumbent to reap the rewards of Digicel's investment in Guyana in the form of Digicel's mobile infrastructure build and the increased number of mobile subscribers in Guyana in which this resulted (e.g. it meant that there were far more people for customers on the incumbent's fixed network to call), but without paying Digicel for the costs of the termination service.

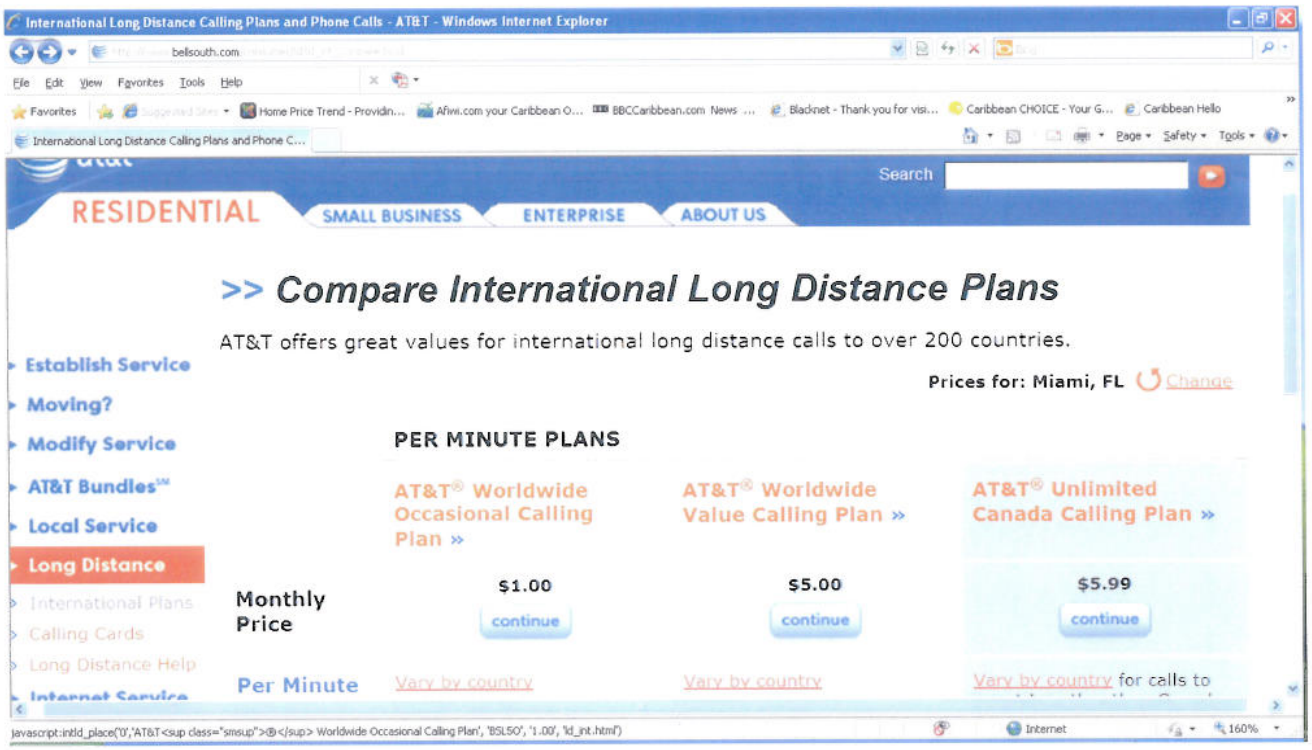
Any success that Digicel has managed in Guyana has happened very much in spite of the distortions in interconnect rates in that jurisdiction. The rates have represented a highly regrettable and unreasonable drag on the telecommunications sector. Network coverage and take up would undoubtedly have been better, and services would be more developed, if a fair interconnect regime had been implemented from the outset.

We believe that Islandcom's suggestion in response to questions 8 and 9 may simply reflect that it may even be prepared to operate mobile termination services at a loss, or at least is much less interested in ensuring that its termination costs are recovered through termination payments. This is because, as the third operator in a highly penetrated market, it may be gambling that it stands more chance of building its customer base to critical mass and becoming more profitable overall if it can maximize the number of calls made by its customers to Digicel and LIME's customers, and therefore its retail revenue, rather than by ensuring that it recovers its own costs of termination. However, the legislation says that the basis of decisions on interconnection rates should be related to costs. The legislation is not meant to favor one organization's business model over that of another operator.

Appendix

Cost of calling Turks and Caicos Island from AT&T: US$1.85 per minute plus $12 per annum





Yours truly,
Digicel (Turks & Caicos) Limited

E Jay Saunders
General Manager
Digicel (TCI) Limited.